

PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2009

PERRY COUNTY SCHOOL DISTRICT

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For the Year Ended June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Perry County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Perry County School District as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009, on our consideration of Perry County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Perry County School District's basic financial statements. The combining and individual nonmajor fund financial statements and other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Perry County School District. The combining and individual nonmajor fund financial statements, other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 28, 2009

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2009

As management of the Perry County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including temporary investment accounts and activity funds, for the District was \$2,481,043. The ending cash balance, including temporary investment accounts and activity funds, for the District was \$2,726,276.
- Fixed assets additions for the year ended reflect twelve bus units acquired through KISTA debt service participation. The bus units will be placed in service for the 2009-10 school year.
- Interest revenue totaled \$223,534 for the year ended and for the prior year the total interest revenue was \$253,632.
- The District's total long-term debt principal reductions were \$2,209,569 and principal additions were \$890,356.
- Total general fund revenue was \$32,257,723 consisting primarily of state program (SEEK), property, utilities, and motor vehicle taxes. Excluding general fund transfers, there were \$32,002,516 in general fund expenditures. The general fund revenue and expenditures include \$6,271,004 in state on-behalf payments.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2009, assets exceeded liabilities by \$18,408,847.

The greatest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net assets for the year ended June 30, 2009

Below is a comparison of net assets:

	June 30,	
	<u>2009</u>	<u>2008</u>
Current Assets	4,727,887	3,264,588
Noncurrent Assets	<u>34,169,421</u>	<u>34,880,839</u>
<u>Total Assets</u>	<u>38,897,308</u>	<u>38,145,427</u>
Current Liabilities	5,196,205	3,973,960
Noncurrent Liabilities	<u>15,292,256</u>	<u>16,742,088</u>
<u>Total Liabilities</u>	<u>20,488,461</u>	<u>20,716,048</u>
- Net Assets -		
Investment in Capital Assets (net of debt)	16,070,865	15,411,568
Restricted	(12,747)	25,120
Unreserved Fund Balance	<u>2,350,729</u>	<u>1,992,691</u>
<u>Total Net Assets</u>	<u>18,408,847</u>	<u>17,429,379</u>
<u>Total Liabilities and Net Assets</u>	<u>38,897,308</u>	<u>38,145,427</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

The following are significant current year transactions that impact the Statement of Net Assets:

- Current asset increases from prior year reflect a prepaid expense for debt service due July 1, 2009 in the amount of \$942,498 affecting the Capital Outlay and FSPK Building Fund. This also resulted in a significant current liability increase as cash deficit reflects a total balance of \$972,509 in the capital projects fund and a cash deficit of \$263,597 in the special revenue fund, an increase of \$1,160,057 from the previous year.
- The net decrease in noncurrent assets is a result of recognition of \$1,774,885 in total depreciation and twelve bus units committed totaling \$890,356.
- The net decrease in noncurrent liabilities primarily consists of a \$2,209,569 principal reduction in long-term debt and principal additions of \$890,536.

The following table presents a comparison of statement of activities for the fiscal years ended June 30, 2009 and 2008:

	<u>For Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Local revenue sources	8,813,377	7,555,980
State revenue sources	30,007,468	31,094,233
Federal revenue	<u>5,923,091</u>	<u>5,343,010</u>
<u>Total revenues</u>	<u>44,743,936</u>	<u>43,993,223</u>
Expenses:		
Instruction	25,981,046	24,929,599
Student support services	1,846,554	1,794,778
Instructional support	1,646,646	1,912,446
District administration	693,210	584,492
School administration	2,006,245	1,970,843
Business support	869,935	854,254
Plant operation	3,699,916	3,575,558
Student transportation	2,930,590	3,555,159
Food service operations	2,609,656	2,395,519
Community services	667,180	700,229
Day care operations	123,397	148,619
Interest on long-term debt	<u>690,093</u>	<u>741,595</u>
<u>Total expenses</u>	<u>43,764,468</u>	<u>43,163,091</u>
<u>Revenues in excess of expenses</u>	<u>979,468</u>	<u>830,132</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

- Current year expense reflects depreciation in the amount of \$1,774,885 and state on-behalf payments in the amount of \$6,447,663. Prior year expense reflects depreciation in the amount of \$1,708,744 and state on-behalf payments in the amount of \$6,224,985.
- SEEK program fiscal year end revenue increased \$19,366,193 for June 30, 2008 to \$18,703,597 for June 30, 2009.
- Local general fund revenues increased \$6,712,672 to \$7,115,978 from June 30, 2008 to June 30, 2009.

BUDGET COMPARISONS

The following table presents a comparison of budget to actual for the general fund for the fiscal year ended June 30, 2009:

	Budget <u>2009</u>	Actual <u>2009</u>	Variance <u>I (D)</u>
Revenues:			
Local revenue sources	6,484,549	7,115,978	631,429
State revenue sources	18,877,682	25,106,920	6,229,238
Federal revenue sources	<u>50,000</u>	<u>34,825</u>	<u>(15,175)</u>
<u>Total revenues</u>	<u>25,412,231</u>	<u>32,257,723</u>	<u>6,845,492</u>
Expenses:			
Instruction	16,173,315	20,050,092	(3,876,777)
Student support services	1,353,854	1,789,354	(435,500)
Instructional support	786,540	961,720	(175,180)
District administration	602,371	689,132	(86,761)
School administration	1,589,377	2,002,902	(413,525)
Business support	792,848	839,818	(46,970)
Plant operation and management	3,145,762	3,312,651	(166,889)
Student transportation	2,296,962	2,316,254	(19,292)
Food service operations	600	-	600
Community services	22,641	40,593	(17,952)
Contingencies	<u>795,437</u>	<u>-</u>	<u>795,437</u>
<u>Total expenses</u>	<u>27,559,707</u>	<u>32,002,516</u>	<u>(4,442,809)</u>
<u>Excess (deficiency) of revenue over expense</u>	<u>(2,147,476)</u>	<u>255,207</u>	<u>2,402,683</u>

PERRY COUNTY SCHOOL DISTRICT
HAZARD, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2009

- Actual revenues and expenditures reflect state on behalf payments in the amount of \$6,271,004.
- Actual local revenue reflects unbudgeted unmined minerals tax in the amount of \$862,088.
- Actual local revenue reflects unbudgeted omitted property tax in the amount of \$22,627.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$795,437 in contingency (2.89%) for the fiscal year ended June 30, 2009.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 439-5813.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

At June 30, 2009

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	2,528,653	56,214	2,584,867
Accounts receivable:			
Taxes - current	167,449	-	167,449
Taxes - delinquent	46,055	-	46,055
Other	27,146	-	27,146
Intergovernmental - State	6,786	-	6,786
Intergovernmental - Indirect Federal	902,572	16,239	918,811
Prepaid expenses	942,498	-	942,498
Inventories	-	34,275	34,275
<u>Total current assets</u>	<u>4,621,159</u>	<u>106,728</u>	<u>4,727,887</u>
- Noncurrent Assets -			
Capital assets	60,767,181	993,963	61,761,144
Less: accumulated depreciation	(26,793,612)	(798,111)	(27,591,723)
<u>Total noncurrent assets</u>	<u>33,973,569</u>	<u>195,852</u>	<u>34,169,421</u>
<u>Total assets</u>	<u>38,594,728</u>	<u>302,580</u>	<u>38,897,308</u>
Liabilities:			
- Current liabilities -			
Cash deficit	1,236,466	3,088	1,239,554
Accounts payable	252,690	4,677	257,367
Current portion of accumulated sick leave	128,760	-	128,760
Deferred revenues	541,075	-	541,075
Current portion of bond/lease obligations	2,339,356	-	2,339,356
Interest payable	690,093	-	690,093
<u>Total current liabilities</u>	<u>5,188,440</u>	<u>7,765</u>	<u>5,196,205</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	15,069,107	-	15,069,107
Noncurrent portion of accrued sick leave	223,149	-	223,149
<u>Total noncurrent liabilities</u>	<u>15,292,256</u>	<u>-</u>	<u>15,292,256</u>
<u>Total liabilities</u>	<u>20,480,696</u>	<u>7,765</u>	<u>20,488,461</u>
Net assets:			
Invested in capital assets, net of related debt	15,875,013	195,852	16,070,865
Restricted for:			
Construction	(47,022)	-	(47,022)
Other	-	34,275	34,275
Unrestricted	2,286,041	64,688	2,350,729
<u>Total net assets</u>	<u>18,114,032</u>	<u>294,815</u>	<u>18,408,847</u>
<u>Total liabilities and net assets</u>	<u>38,594,728</u>	<u>302,580</u>	<u>38,897,308</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2009

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instruction	25,981,046	-	(9,194,911)	-
Support services:				
Student	1,846,554	-	(467,158)	-
Instructional staff	1,646,646	-	(882,597)	-
District administration	693,210	-	(67,454)	-
School administration	2,006,245	-	(432,160)	-
Business support	869,935	-	(170,076)	-
Plant operation & management	3,699,916	-	(291,711)	-
Student transportation	2,930,590	-	(580,160)	-
Food service operations	75,382	-	(75,382)	-
Community services operations	667,180	-	(636,595)	-
Interest on long-term debt	690,093	-	(706)	-
<u>Total governmental activities</u>	<u>41,106,797</u>	<u>-</u>	<u>(12,798,910)</u>	<u>-</u>
- Business-type Activities -				
Food service	2,534,274	(641,362)	(1,823,347)	-
Day care	123,397	(101,993)	(11,597)	-
<u>Total business-type activities</u>	<u>2,657,671</u>	<u>(743,355)</u>	<u>(1,834,944)</u>	<u>-</u>
<u>Total primary government</u>	<u>43,764,468</u>	<u>(743,355)</u>	<u>(14,633,854)</u>	<u>-</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2009

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental	Business-	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
	(16,786,135)	-	(16,786,135)
	(1,379,396)	-	(1,379,396)
	(764,049)	-	(764,049)
	(625,756)	-	(625,756)
	(1,574,085)	-	(1,574,085)
	(699,859)	-	(699,859)
	(3,408,205)	-	(3,408,205)
	(2,350,430)	-	(2,350,430)
	-	-	-
	(30,585)	-	(30,585)
	<u>(689,387)</u>	<u>-</u>	<u>(689,387)</u>
	<u>(28,307,887)</u>	<u>-</u>	<u>(28,307,887)</u>
	-	(69,565)	(69,565)
	<u>-</u>	<u>(9,807)</u>	<u>(9,807)</u>
	<u>-</u>	<u>(79,372)</u>	<u>(79,372)</u>
	<u>(28,307,887)</u>	<u>(79,372)</u>	<u>(28,387,259)</u>
General revenues:			
Taxes	7,608,046	-	7,608,046
Investment earnings	223,236	298	223,534
State and formula grants	21,296,705	-	21,296,705
Miscellaneous	<u>203,019</u>	<u>35,423</u>	<u>238,442</u>
<u>Total general revenues</u>	<u>29,331,006</u>	<u>35,721</u>	<u>29,366,727</u>
Change in net assets	1,023,119	(43,651)	979,468
Net assets - beginning of year	<u>17,090,913</u>	<u>338,466</u>	<u>17,429,379</u>
Net assets - ending of year	<u>18,114,032</u>	<u>294,815</u>	<u>18,408,847</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2009

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Assets and resources:				
Cash and cash equivalents	2,528,653	-	-	2,528,653
Accounts receivable:				
Taxes - current	167,449	-	-	167,449
Taxes - delinquent	46,055	-	-	46,055
Other	10,070	17,076	-	27,146
Intergovernmental - State	3,914	2,872	-	6,786
Intergovernmental - Indirect Federal	-	902,572	-	902,572
Prepaid Expense	-	-	942,498	942,498
	<u>2,756,141</u>	<u>922,520</u>	<u>942,498</u>	<u>4,621,159</u>
Liabilities and fund balances:				
Cash deficit	-	263,957	972,509	1,236,466
Accounts payable	134,802	117,488	400	252,690
Deferred revenue	-	541,075	-	541,075
	<u>134,802</u>	<u>922,520</u>	<u>972,909</u>	<u>2,030,231</u>
Fund balances				
Reserved for construction	-	-	(47,022)	(47,022)
Undesignated fund balance	2,621,339	-	16,611	2,637,950
	<u>2,621,339</u>	<u>-</u>	<u>(30,411)</u>	<u>2,590,928</u>
Total liabilities and fund balances	<u>2,756,141</u>	<u>922,520</u>	<u>942,498</u>	<u>4,621,159</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETSAt June 30, 2009

Total fund balance per fund financial statements	2,590,928
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets are not reported in this fund financial
statement because they are not current financial
resources, but are reported in the statement
of net assets.

33,973,569

Certain liabilities (such as bonds payable, accrued
sick leave and accrued interest) are not reported
in this fund financial statement because they are
not due and payable, but are presented in the
statement of net assets.

(18,450,465)

Net assets for governmental activities

18,114,032

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2009

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:				
From local sources:				
Taxes	6,884,156	-	723,890	7,608,046
Earnings on investments	223,236	-	-	223,236
Other local revenue	8,586	64,654	-	73,240
Intergovernmental - state	25,106,920	2,405,349	2,483,602	29,995,871
Intergovernmental - direct federal	-	84,236	-	84,236
Intergovernmental - indirect federal	34,825	3,980,683	-	4,015,508
<u>Total revenues</u>	<u>32,257,723</u>	<u>6,534,922</u>	<u>3,207,492</u>	<u>42,000,137</u>
Expenditures:				
Instructional	20,050,092	4,704,315	-	24,754,407
Student support services	1,789,354	56,290	-	1,845,644
Staff support services	961,720	656,284	-	1,618,004
District administration	689,132	2,997	-	692,129
School administration	2,002,902	-	-	2,002,902
Business support	839,818	30,117	-	869,935
Plant operations and management	3,312,651	51,175	256,328	3,620,154
Student transportation	2,316,254	324,053	-	2,640,307
Food service operations	-	75,382	-	75,382
Community service activities	40,593	626,587	-	667,180
Facilities acquisition and construction	-	706	16,300	17,006
Debt service:				
Principal	-	-	2,209,569	2,209,569
Interest	-	-	741,595	741,595
<u>Total expenditures</u>	<u>32,002,516</u>	<u>6,527,906</u>	<u>3,223,792</u>	<u>41,754,214</u>
Excess (deficit) of revenues over expenditures	<u>255,207</u>	<u>7,016</u>	<u>(16,300)</u>	<u>245,923</u>
Other financing sources (uses):				
Gain (loss) on disposal of assets	129,779	-	-	129,779
Operating transfers in	58,088	85,122	1,444,843	1,588,053
Operating transfers out	(85,122)	(92,138)	(1,444,843)	(1,622,103)
<u>Total other financing sources (uses)</u>	<u>102,745</u>	<u>(7,016)</u>	<u>-</u>	<u>95,729</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	357,952	-	(16,300)	341,652
Fund balance - July 1, 2008	<u>2,263,387</u>	<u>-</u>	<u>(14,111)</u>	<u>2,249,276</u>
Fund balance - June 30, 2009	<u>2,621,339</u>	<u>-</u>	<u>(30,411)</u>	<u>2,590,928</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2009

Net change in total fund balances per fund financial statements	341,652
Amounts reported for governmental activities in the statement of activities differences:	
Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which capital outlay adjustments exceeds depreciation for the year.	(1,567,291)
Accruals for long-term sick leave payable are recognized in the government wide financial statements when accrued and when paid in the fund financial statements.	(12,313)
Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets.	<u>2,261,071</u>
Change in net assets of governmental activities	<u><u>1,023,119</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	5,965,975	6,277,449	6,884,156	606,707
Earnings on investments	200,000	200,000	223,236	23,236
Other local revenue	7,100	7,100	8,586	1,486
Intergovernmental - state	19,475,093	18,877,682	25,106,920	6,229,238
Intergovernmental - indirect federal	50,000	50,000	34,825	(15,175)
<u>Total revenues</u>	<u>25,698,168</u>	<u>25,412,231</u>	<u>32,257,723</u>	<u>6,845,492</u>
Expenditures:				
Instructional	15,804,830	16,173,315	20,050,092	(3,876,777)
Student support services	1,343,294	1,353,854	1,789,354	(435,500)
Staff support services	785,957	786,540	961,720	(175,180)
District administration	501,641	602,371	689,132	(86,761)
School administration	1,589,377	1,589,377	2,002,902	(413,525)
Business support	789,688	792,848	839,818	(46,970)
Plant operations and management	3,063,424	3,145,762	3,312,651	(166,889)
Student transportation	2,310,938	2,296,962	2,316,254	(19,292)
Food service operations	600	600	-	600
Community service activities	22,642	22,641	40,593	(17,952)
Contingencies	752,000	795,437	-	795,437
<u>Total expenditures</u>	<u>26,964,391</u>	<u>27,559,707</u>	<u>32,002,516</u>	<u>(4,442,809)</u>
Excess (deficit) of revenues over expenditures	<u>(1,266,223)</u>	<u>(2,147,476)</u>	<u>255,207</u>	<u>2,402,683</u>
Other financing sources (uses):				
Operating transfers in	43,774	58,088	58,088	-
Operating transfers out	(240,341)	(285,999)	(85,122)	200,877
Gains/losses on assets	15,000	112,000	129,779	17,779
<u>Total other financing sources (uses)</u>	<u>(181,567)</u>	<u>(115,911)</u>	<u>102,745</u>	<u>218,656</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,447,790)</u>	<u>(2,263,387)</u>	<u>357,952</u>	<u>2,621,339</u>
Fund balance - July 1, 2008	<u>1,447,790</u>	<u>2,263,387</u>	<u>2,263,387</u>	<u>-</u>
Fund balance - June 30, 2009	<u>-</u>	<u>-</u>	<u>2,621,339</u>	<u>2,621,339</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources	-	-	64,654	64,654
Intergovernmental - state	2,506,590	2,418,098	2,405,349	(12,749)
Intergovernmental - direct federal	98,996	98,996	84,236	(14,760)
Intergovernmental - indirect federal	<u>3,606,753</u>	<u>4,260,383</u>	<u>3,980,683</u>	<u>(279,700)</u>
<u>Total revenues</u>	<u>6,212,339</u>	<u>6,777,477</u>	<u>6,534,922</u>	<u>(242,555)</u>
Expenditures:				
Instructional	4,348,399	4,984,324	4,704,315	280,009
Student support services	71,093	92,838	56,290	36,548
Staff support services	706,755	636,507	656,284	(19,777)
District administration support services	-	-	2,997	(2,997)
Business support services	13,166	24,026	30,117	(6,091)
Plant operations and management	54,960	53,181	51,175	2,006
Student transportation	394,094	334,073	324,053	10,020
Food service operation	-	60,000	75,382	(15,382)
Community service activities	637,098	637,098	626,587	10,511
Site improvement/construction/renovations	<u>-</u>	<u>-</u>	<u>706</u>	<u>(706)</u>
<u>Total expenditures</u>	<u>6,225,565</u>	<u>6,822,047</u>	<u>6,527,906</u>	<u>294,141</u>
Excess (deficit) of revenues over expenditures	<u>(13,226)</u>	<u>(44,570)</u>	<u>7,016</u>	<u>(51,586)</u>
Other financing sources (uses):				
Operating transfers in	57,000	102,658	85,122	17,536
Operating transfers out	<u>(43,774)</u>	<u>(58,088)</u>	<u>(92,138)</u>	<u>34,050</u>
<u>Total other financing sources (uses)</u>	<u>13,226</u>	<u>44,570</u>	<u>(7,016)</u>	<u>51,586</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	-	-	-
Fund balance - July 1, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30, 2009	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS

At June 30, 2009

	<u>Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	-	56,214	56,214
Accounts receivable	16,239	-	16,239
Inventories	34,275	-	34,275
	<u> </u>	<u> </u>	<u> </u>
<u>Total current assets</u>	<u>50,514</u>	<u>56,214</u>	<u>106,728</u>
- Noncurrent Assets -			
Capital assets	993,963	-	993,963
Less: accumulated depreciation	(798,111)	-	(798,111)
	<u> </u>	<u> </u>	<u> </u>
<u>Total noncurrent assets</u>	<u>195,852</u>	<u>-</u>	<u>195,852</u>
	<u> </u>	<u> </u>	<u> </u>
<u>Total assets</u>	<u>246,366</u>	<u>56,214</u>	<u>302,580</u>
Liabilities:			
- Current Liabilities -			
Cash Deficit	3,088	-	3,088
Accounts payable	2,906	1,771	4,677
	<u> </u>	<u> </u>	<u> </u>
<u>Total current liabilities</u>	<u>5,994</u>	<u>1,771</u>	<u>7,765</u>
Net assets:			
Investments in capital assets	195,852	-	195,852
Reserved for inventories	34,275	-	34,275
Unreserved	10,245	54,443	64,688
	<u> </u>	<u> </u>	<u> </u>
<u>Total net assets</u>	<u>240,372</u>	<u>54,443</u>	<u>294,815</u>
	<u> </u>	<u> </u>	<u> </u>
<u>Total liabilities and net assets</u>	<u>246,366</u>	<u>56,214</u>	<u>302,580</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – PROPRIETARY FUNDS

For the Year Ended June 30, 2009

	<u>Food service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Operating revenues:			
Lunchroom sales	641,362	-	641,362
Tuition from individuals	<u>-</u>	<u>101,993</u>	<u>101,993</u>
 <u>Total operating revenues</u>	 <u>641,362</u>	 <u>101,993</u>	 <u>743,355</u>
 Operating expense:			
Salaries and wages	1,147,149	83,580	1,230,729
Contract services	75,731	8,124	83,855
Materials and supplies	1,272,413	29,383	1,301,796
Depreciation	38,344	-	38,344
Other operating expenses	<u>637</u>	<u>2,310</u>	<u>2,947</u>
 <u>Total operating expenses</u>	 <u>2,534,274</u>	 <u>123,397</u>	 <u>2,657,671</u>
 <u>Operating income (loss)</u>	 <u>(1,892,912)</u>	 <u>(21,404)</u>	 <u>(1,914,316)</u>
 Nonoperating Revenue/(Expense):			
Federal grants	1,633,442	-	1,633,442
State grants/on-behalf payments	189,905	11,597	201,502
Local contributions	-	1,750	1,750
Interest income	298	-	298
Other gains (losses)	(377)	-	(377)
Transfers in	<u>34,050</u>	<u>-</u>	<u>34,050</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>1,857,318</u>	 <u>13,347</u>	 <u>1,870,665</u>
 <u>Net income (loss)</u>	 <u>(35,594)</u>	 <u>(8,057)</u>	 <u>(43,651)</u>
 Net Assets, July 1, 2008	 <u>275,966</u>	 <u>62,500</u>	 <u>338,466</u>
 Net Assets, June 30, 2009	 <u>240,372</u>	 <u>54,443</u>	 <u>294,815</u>

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

For the Year Ended June 30, 2009

	<u>Food service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	641,362	-	641,362
Tuition from individuals	-	104,430	104,430
Cash paid to/for:			
Employees	(982,087)	(83,579)	(1,065,666)
Supplies/Contractual	(1,341,857)	(37,192)	(1,379,049)
Other activities	(637)	(2,310)	(2,947)
<u>Net cash used by operating activities</u>	<u>(1,683,219)</u>	<u>(18,651)</u>	<u>(1,701,870)</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(4,238)	-	(4,238)
<u>Net cash used by capital and related financing activities</u>	<u>(4,238)</u>	<u>-</u>	<u>(4,238)</u>
Cash flows from investing activities:			
Interest income	298	-	298
Cash flows from financing activities:			
Federal grants	1,623,699	-	1,623,699
State grants	24,843	11,597	36,440
Transfers from other funds	34,050	-	34,050
<u>Net cash provided by financing activities</u>	<u>1,682,592</u>	<u>11,597</u>	<u>1,694,189</u>
Net increase (decrease) in cash	(4,567)	(7,054)	(11,621)
Cash, beginning of year	1,479	63,268	64,747
Cash, end of year	(3,088)	56,214	53,126
Reconciliation of operating income (loss) to net cash provided (used) by operations:			
Operating income (loss)	(1,892,912)	(19,653)	(1,912,565)
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	38,344	-	38,344
State on-behalf payments	165,062	-	165,062
Changes in current assets/liabilities			
Accounts receivable	-	688	688
Inventories	4,956	-	4,956
Accounts payable	1,331	315	1,646
<u>Net cash provided (used) by operating activities</u>	<u>(1,683,219)</u>	<u>(18,650)</u>	<u>(1,701,869)</u>

The schedule reflects \$165,602 and \$11,598 of non-cash on-behalf payments from the State, respectively, for each fund.

See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET ASSETS – ACTIVITY FUNDSAt June 30, 2009**Assets:**

Cash and cash equivalents	437,275
Accounts receivable	<u>23,733</u>

<u>Total assets</u>	<u>461,008</u>
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Liabilities:

Accounts payable	5,715
Due to individual student activity account funds	<u>455,293</u>

<u>Total liabilities</u>	<u>461,008</u>
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Net assets:

Permanently restricted reserve for scholarships	<u>-</u>
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<u>Total liabilities and net assets</u>	<u>461,008</u>
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See notes to financial statements.

PERRY COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2009

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Perry County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Perry County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Perry County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Perry County School District Finance Corporation – On July 12, 1988, the Perry County, Kentucky, Board of Education resolved to authorize the establishment of the Perry County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Perry County Board of Education also comprise the Corporations’ Board of Directors.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)Basis of Presentation

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. The proprietary funds are accounted for using GASB standards as well as standards issued by the FASB through November 1989 and that do not conflict with GASB Standards. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The Childcare fund accounts for revenues and expenditures related to daycare services and preschool activities.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Accounting Procedures for Kentucky School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements,

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$.386 per \$100 valuation for real property, \$.399 per \$100 valuation for business personal property and \$.497 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2009.

For government wide financial statements the current portion of unpaid accrued sick leave, \$128,760, is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable". For government-wide financial statements the long-term portion of unpaid accrued compensation in the amount of \$223,149 is reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$4,763,481. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The funds of the District are deposited and invested under the terms of a contract, contents of which are set out in the bond of depositors for public school funds. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). All of the District's deposits were collateralized with securities held in the financial institution's name. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE C – CASH AND CASH EQUIVALENTS (continued)

local financial institution. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

Cash and cash equivalents at June 30, 2009 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Peoples Bank & Trust		
General operations	3,372,065	1,345,313
A.B. Combs Elementary	8,560	8,516
Big Creek Elementary	19,903	19,886
Buckhorn High School	29,853	29,697
Buckhorn Elementary	25,789	25,251
Chavies Elementary	57,640	55,949
Dennis Wooton Elementary	74,616	74,592
Leatherwood Elementary	23,526	23,526
Lost Creek Elementary	1,405	127
Perry County Central High School	75,207	72,789
Robinson Elementary	20,868	20,651
R.W. Combs Elementary	55,582	55,582
Viper Elementary	35,665	34,833
Willard Elementary	19,114	15,876
Misc Bond Accounts	943,688	943,688
	<u>4,763,481</u>	<u>2,726,276</u>
<u>Total</u>		

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Refunding December 1998	8,285,000	4.15% - 4.15%
Revenue December 1998	3,500,000	3.50% - 4.60%
September 2001	1,865,000	3.50% - 4.75%
Refunding March 2003	4,285,000	1.00% - 3.00%
Refunding May 2003	1,640,000	1.50% - 2.30%
Revenue June 2004	3,865,000	2.70% - 4.90%
KISTA January 2005	779,290	3.00% - 3.625%
Refunding Revenue March 2005	2,465,000	2.50% - 3.00%
Revenue Bonds July 2006	3,015,000	3.70% - 4.375%
KISTA 2009	890,356	2.00% - 3.800%

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Perry County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt and are considered defeased by the District.

In 1988, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The District participated in the Kentucky Interlocal School Transportation Association (KISTA) bond pool in the fiscal year ended for the purpose of acquiring twelve bus units. The total bond principal was \$890,356.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	<u>Board</u>	<u>KSFCC</u>	<u>Board</u>	<u>KSFCC</u>	
2009 - 10	1,215,606	1,123,750	425,603	264,490	3,029,449
2010 - 11	1,262,117	609,490	381,057	224,675	2,477,339
2011 - 12	1,309,697	634,166	331,159	199,713	2,474,734
2012 - 13	1,357,079	654,652	279,085	173,457	2,464,273
2013 - 14	583,268	343,877	245,960	152,505	1,325,610
2014 - 15	605,544	354,061	223,292	137,586	1,320,483
2015 - 16	555,377	357,160	198,903	122,021	1,233,460
2016 - 17	567,785	372,253	175,738	106,281	1,222,058
2017 - 18	596,137	388,903	151,208	89,630	1,225,878
2018 - 19	620,513	352,028	124,810	73,251	1,170,603
2019 - 20	531,583	188,417	97,266	61,384	878,650
2020 - 21	283,179	196,821	72,401	52,979	605,380
2021 - 22	289,317	205,683	59,108	44,117	598,225
2022 - 23	310,053	214,947	45,526	34,854	605,380
2023 - 24	320,215	224,785	30,669	25,016	600,685
2024 - 25	124,094	135,906	13,680	14,660	288,340
2025 - 26	120,626	154,374	8,373	8,361	291,734
2026 - 27	131,081	113,919	2,867	2,492	250,359
<u>Totals</u>	<u>10,783,271</u>	<u>6,625,192</u>	<u>2,866,705</u>	<u>1,787,471</u>	<u>22,062,640</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</u>
Refunding December 1998	5,385,000	-	(575,000)	4,810,000
Revenue December 1998	2,155,000	-	(180,000)	1,975,000
September 2001	1,720,000	-	(25,000)	1,695,000
Refunding March 2003	900,000	-	(200,000)	700,000
Refunding May 2003	495,000	-	(495,000)	-
Revenue June 2004	3,570,000	-	(70,000)	3,500,000
KISTA Series January 2005	542,676	-	(74,569)	468,107
Revenue March 2005	1,025,000	-	(505,000)	520,000
Revenue July 2006	2,935,000	-	(85,000)	2,850,000
KISTA Series 2009	-	890,356	-	890,356
	<u>18,727,676</u>	<u>890,356</u>	<u>(2,209,569)</u>	<u>17,408,463</u>
<u>Total</u>	<u>18,727,676</u>	<u>890,356</u>	<u>(2,209,569)</u>	<u>17,408,463</u>

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2009</u>
<u>Governmental Activities</u>				
Land	637,300	-	-	637,300
Land improvements	3,498,658	-	-	3,498,658
Buildings and improvements	45,450,482	-	-	45,450,482
Technology equipment	3,212,379	172,883	182,039	3,203,223
Vehicles	5,153,896	890,356	392,981	5,651,271
General equipment	2,364,608	-	38,361	2,326,247
<u>Totals at historical cost</u>	<u>60,317,323</u>	<u>1,063,239</u>	<u>613,381</u>	<u>60,767,181</u>
Less: accumulated depreciation				
Land and improvements	2,404,923	174,933	-	2,579,856
Buildings and improvements	15,219,621	891,101	-	16,110,722
Technology equipment	2,268,194	354,701	176,472	2,446,423
Vehicles	3,542,389	290,283	392,981	3,439,691
General equipment	2,231,692	25,523	40,295	2,216,920
<u>Total accumulated depreciation</u>	<u>25,666,819</u>	<u>1,736,541</u>	<u>609,748</u>	<u>26,793,612</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>34,650,504</u>	<u>(673,302)</u>	<u>3,633</u>	<u>33,973,569</u>

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE E – CAPITAL ASSETS (continued)

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>
<u>Business-Type Activities</u>				
Technology	13,200	3,640	-	16,840
Food service and equipment	<u>990,225</u>	<u>598</u>	<u>13,700</u>	<u>977,123</u>
<u>Totals at historical cost</u>	<u>1,003,425</u>	<u>4,238</u>	<u>13,700</u>	<u>993,963</u>
Less: accumulated depreciation				
Technology	7,890	1,717	-	9,607
Food service and equipment	<u>765,200</u>	<u>36,627</u>	<u>13,323</u>	<u>788,504</u>
<u>Total accumulated depreciation</u>	<u>773,090</u>	<u>38,344</u>	<u>13,323</u>	<u>798,111</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>230,335</u>	<u>(34,106)</u>	<u>377</u>	<u>195,852</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	1,332,520
Student support services	910
Instructional staff support	28,642
District administration support	1,081
School administration support	3,343
Plant operation and management	79,762
Student transportation	<u>290,283</u>
<u>Total</u>	<u>1,736,541</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009**NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2009, as follows:

Year ending June 30:	
2010	144,774
2011	112,770
2012	84,927
2013	<u>43,758</u>

Total Minimum Rentals	<u>386,229</u>
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NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Perry County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS and 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-

PERRY COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

NOTE G – RETIREMENT PLANS (continued)

sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Perry County Public School District's total payroll for the year was \$25,873,644. The payroll for employees covered under KTRS was \$19,594,547. For the year ended June 30, 2009, the Commonwealth contributed \$2,316,421 to KTRS for the benefit of its participating employees. The School District's contributions to KTRS for the year ending June 30, 2009 were \$254,361, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 13.5% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$5,887,800.

The contribution requirement for CERS for the year ended June 30, 2009 was \$1,089,192 which consisted of \$794,921 from the District and \$294,271 from the employees. The District has no contribution requirement to KTRS.

Following is a summary of contributions paid by the District on-behalf of the employees for the past three years:

Year Ended <u>June 30,</u>	<u>Teacher's Retirement</u>		<u>County Retirement</u>
	<u>District</u>	<u>State</u>	
2009	254,361	2,316,421	794,921
2008	245,460	2,298,190	1,010,464
2007	247,349	2,151,720	807,814

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE G – RETIREMENT PLANS (continued)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS <u>as of June 30, 2008</u> (in millions of dollars)	CERS <u>as of June 30, 2008</u> (in millions of dollars)
Actuarial accrued liabilities	22,460.3	9,707.3
Actuarial value of assets	<u>15,321.3</u>	<u>7,482.4</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>7,139.0</u>	<u>2,224.9</u>

Historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2009 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board’s portion of the unfunded past service cost or the vested benefits of the Board’s portion of the plan assets.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2009:

Construction Fund	\$63,322
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The following funds had expenditures in excess of revenues at June 30, 2009:

Construction Fund	16,300
Food Service Fund	35,594
Day Care Operations	8,057
Lost Creek Elementary Activity Fund	1,029
Robinson Elementary Activity Fund	5,555
Willard Elementary Activity Fund	325

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay	Debt Service	Bond principal and interest	116,327
FSPK	Debt Service	Bond principal and interest	1,328,516
General Fund	Special Revenue	KETS	80,122
General Fund	Special Revenue	Community Education Grant Match	5,000
Special Revenue	General Fund	Indirect - Title I	49,043
Special Revenue	General Fund	Indirect - Teacher Quality Grant	9,045
Special Revenue	School Food Service	Summer Feed Program	<u>34,050</u>
		Total	<u>1,622,103</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2009 were \$-0-.

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2009, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Enterprise Funds</u>
Fund Balance/Retained Earnings as reported to the Department of Education	2,532,124	-	(30,411)	103,918
Adjustment to Fund Balance/Retained Earnings				
(1) To record adjustments to accounts receivable	3,979	-	-	-
(2) To record adjustments to accounts payable	80,649	(602)	-	-
(3) To record adjustments to deferred revenue	-	602	-	-
(4) To record inventories for consumption - food service	-	-	-	(4,956)
Fund Balance/Retained Earnings per fund financial statements at June 30, 2009	<u>2,616,752</u>	<u>-</u>	<u>(30,411)</u>	<u>98,962</u>

NOTE R – ON-BEHALF PAYMENTS

The following payments made by the state on behalf of employees of the District and for the benefit of the District are recognized in the government-wide financial statements as additional revenue and expenditures for the year ended June 30, 2009:

Kentucky Teacher's Retirement System	2,316,421
Health Insurance	4,094,503
Life Insurance	16,234
Administrative Fees	43,278
Health Reimbursement Account	252,700
Less: Federal Reimbursement	<u>(275,473)</u>
Total	<u>6,447,663</u>

PERRY COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE R – ON-BEHALF PAYMENTS (continued)

Payments are allocated among the following funds:

General	6,271,004
Food Service	165,062
Day Care Operations	<u>11,597</u>
<u>Total</u>	<u>6,447,663</u>

PERRY COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2009

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Asset and resources:					
Cash and cash equivalents	-	-	-	-	-
Prepaid expenses	<u>76,526</u>	<u>865,973</u>	<u>-</u>	<u>-</u>	<u>942,499</u>
Total assets and resources	<u>76,526</u>	<u>865,973</u>	<u>-</u>	<u>-</u>	<u>942,499</u>
Liabilities and fund balances:					
- Liabilities -					
Cash deficit	76,526	833,062	62,922	-	972,510
Accounts payable	<u>-</u>	<u>-</u>	<u>400</u>	<u>-</u>	<u>400</u>
Total liabilities	<u>76,526</u>	<u>833,062</u>	<u>63,322</u>	<u>-</u>	<u>972,910</u>
- Fund balances -					
Restricted for construction	-	-	(47,022)	-	(47,022)
Unreserved fund balance	<u>-</u>	<u>32,911</u>	<u>(16,300)</u>	<u>-</u>	<u>16,611</u>
Total fund balances	<u>-</u>	<u>32,911</u>	<u>(63,322)</u>	<u>-</u>	<u>(30,411)</u>
Total liabilities and fund balances	<u>-</u>	<u>32,911</u>	<u>-</u>	<u>-</u>	<u>942,499</u>

PERRY COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2009

	SEEK Capital Outlay <u>Fund</u>	Building <u>Fund</u>	Construction <u>Fund</u>	Debt Service <u>Funds</u>	<u>Total</u>
Revenues:					
From local sources:					
General real property tax	-	723,890	-	-	723,890
Intergovernmental - State	<u>372,655</u>	<u>604,626</u>	<u>-</u>	<u>1,506,321</u>	<u>2,483,602</u>
<u>Total revenues</u>	<u>372,655</u>	<u>1,328,516</u>	<u>-</u>	<u>1,506,321</u>	<u>3,207,492</u>
Expenditures:					
Plant operation and management	256,328	-	-	-	256,328
Building renovations/additions	-	-	16,300	-	16,300
Debt service:					
Principal	-	-	-	2,209,569	2,209,569
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>741,595</u>	<u>741,595</u>
<u>Total expenditures</u>	<u>256,328</u>	<u>-</u>	<u>16,300</u>	<u>2,951,164</u>	<u>3,223,792</u>
Excess (deficit) of revenues over expenditures	<u>116,327</u>	<u>1,328,516</u>	<u>(16,300)</u>	<u>(1,444,843)</u>	<u>(16,300)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	1,444,843	1,444,843
Operating transfers out	<u>(116,327)</u>	<u>(1,328,516)</u>	<u>-</u>	<u>-</u>	<u>(1,444,843)</u>
<u>Total other financing sources (uses)</u>	<u>(116,327)</u>	<u>(1,328,516)</u>	<u>-</u>	<u>1,444,843</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	(16,300)	-	(16,300)
Fund balance, July 1, 2008	<u>-</u>	<u>32,911</u>	<u>(47,022)</u>	<u>-</u>	<u>(14,111)</u>
Fund balance, June 30, 2009	<u>-</u>	<u>32,911</u>	<u>(63,322)</u>	<u>-</u>	<u>(30,411)</u>

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2009

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance June 30, 2008</u>	<u>Fund Balance June 30, 2009</u>
General	21,675	24,875	(3,200)	3,765	565
Locker	3,510	3,510	-	-	-
Lost textbooks	1,504	-	1,504	955	2,459
Parking tags	764	764	-	-	-
Pepsi lounge	11,588	13,181	(1,593)	3,610	2,017
Pepsi lobby	23,551	23,575	(24)	24	-
Breaktime vending	5,480	5,589	(109)	109	-
Donated	4,072	3,572	500	-	500
Breaktime vend lounge	2,688	2,434	254	610	864
Pencil machine	259	199	60	-	60
Band T-shirts	740	740	-	-	-
Janitorial	9,792	4,896	4,896	-	4,896
Board travel	13,000	13,000	-	-	-
Regional boys soccer	2,194	2,194	-	-	-
54 district	-	-	-	1,284	1,284
54th district tourney	-	514	(514)	1,402	888
WYMT Concessions	1,823	1,823	-	-	-
Concessions	10,300	10,461	(161)	307	146
Playoffs (fball)	-	1	(1)	1	-
Gate receipts	45,133	43,290	1,843	419	2,262
Football	17,328	17,009	319	477	796
Track	-	1,141	(1,141)	1,141	-
Boys basketball	13,736	17,810	(4,074)	4,094	20
Girls basketball	42,337	42,426	(89)	89	-
Wrestling	14,975	12,947	2,028	-	2,028
Volleyball	15,846	15,846	-	-	-
M/S Volley	868	19	849	-	849
Golf	2,145	1,936	209	-	209
Cross country	800	25	775	104	879
Baseball	11,870	14,279	(2,409)	2,409	-
Softball	20,751	19,939	812	-	812
Boys varsity cheerleaders	46,817	43,753	3,064	-	3,064
Girls varsity cheerleaders	12,665	10,379	2,286	-	2,286
Tennis	1,055	680	375	-	375
Regional Volleyball	2,965	2,965	-	-	-
Grade school athletics	12,498	15,422	(2,924)	2,924	-
Soccer	17,658	17,658	-	-	-
District Soccer	3,715	3,715	-	-	-
Band Uniforms	21,025	21,269	(244)	2,418	2,174
JV District Tourney	-	141	(141)	141	-
Regional Concessions	-	2,601	(2,601)	3,257	656
Region Program	-	150	(150)	1,634	1,484
Academics	2,100	2,350	(250)	2,257	2,007
Band	22,652	25,629	(2,977)	4,155	1,178

Note: This fund maintains accounting separate from MUNIS at June 30, 2009.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEPERRY COUNTY HIGH SCHOOL ACTIVITY FUND (CONTINUED)For the Year Ended June 30, 2009

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance June 30, 2008</u>	<u>Fund Balance June 30, 2009</u>
BETA	150	400	(250)	539	289
Business/FBLA	5,527	5,801	(274)	429	155
Chorus	4,444	4,247	197	287	484
Commodore	1,006	500	506	-	506
Drama	3,636	3,119	517	1,008	1,525
FCCLA	2,658	2,648	10	116	126
FFA	13,447	12,971	476	663	1,139
Guidance	5,724	5,700	24	477	501
JROTC	10,082	12,599	(2,517)	5,989	3,472
Juniors	8,660	9,415	(755)	2,000	1,245
Library	178	75	103	130	233
National art	393	361	32	-	32
Newspaper	-	-	-	673	673
Yearbook	17,442	12,667	4,775	6,916	11,691
Seniors	136,764	126,935	9,829	7,729	17,558
Spanish Honor	1,005	973	32	-	32
Special ed dept	-	-	-	142	142
Speech Team	-	-	-	412	412
Overview tech	516	780	(264)	264	-
YSC	12,931	11,391	1,540	519	2,059
YSC Transportation	-	-	-	384	384
<u>Sub-totals</u>	<u>666,442</u>	<u>655,289</u>	<u>11,153</u>	<u>66,263</u>	<u>77,416</u>
Less: Interfund transfers	<u>67,778</u>	<u>67,778</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Totals</u>	<u>598,664</u>	<u>587,511</u>	<u>11,153</u>	<u>66,263</u>	<u>77,416</u>

Note: This fund maintains accounting separate from MUNIS at June 30, 2009.

PERRY COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUCKHORN HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2009

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of <u>Revenues over Expenditures</u>	<u>Fund Balance</u> <u>June 30, 2008</u>	<u>Fund Balance</u> <u>June 30, 2009</u>
General fund	21,043	15,887	5,156	494	5,650
Vending machines	1,143	1,500	(357)	1,088	731
Employee workroom	1,699	1,729	(30)	877	847
School supplies	296	199	97	430	527
Graduation	-	105	(105)	216	111
Drug coalition	1,200	1,311	(111)	111	-
FBLA Club	2,281	1,943	338	-	338
STLP	125	-	125	-	125
Baseball	5,275	5,007	268	461	729
H.S. boys basketball	31,863	29,618	2,245	(487)	1,758
H.S. girls basketball	21,535	22,836	(1,301)	2,515	1,214
H.S. cheerleaders	1,735	1,459	276	-	276
Volleyball	16,898	16,431	467	-	467
Soccer	2,434	2,414	20	-	20
Softball	4,833	4,208	625	418	1,043
FHA/FCCLA	-	-	-	22	22
Foreign language club	-	-	-	5	5
JROTC	3,760	3,900	(140)	1,240	1,100
Teens for Christ	153	120	33	84	117
Spanish	-	-	-	2	2
Social studies	-	-	-	18	18
Library	630	910	(280)	685	405
Library Improvement	-	-	-	1,000	1,000
Industrial arts	-	-	-	2	2
Science/health/P.E.	-	-	-	38	38
Yearbook	3,597	4,391	(794)	3,098	2,304
Family resource center	7,865	7,772	93	-	93
11th Grade	2,241	2,064	177	2	179
12th Grade	-	-	-	45	45
Senior trip 2008	23,819	15,646	8,173	1,499	9,672
Guidance - Ky Ahed Grant	5,010	6,200	(1,190)	1,190	-
Guidance - records	165	7	158	1,010	1,168
Donations	-	524	(524)	524	-
<u>Sub-totals</u>	<u>159,600</u>	<u>146,181</u>	<u>13,419</u>	<u>16,584</u>	<u>30,004</u>
Less: Interfund transfers	<u>6,900</u>	<u>6,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Totals</u>	<u>152,700</u>	<u>139,281</u>	<u>13,419</u>	<u>16,584</u>	<u>30,004</u>

Note: This fund maintains accounting separate from MUNIS at June 30, 2009.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2009

	<u>A.B. Combs Elementary</u>	<u>Big Creek Elementary</u>	<u>Buckhorn Elementary</u>	<u>Chavies Elementary</u>	<u>Dennis C. Wooton Elementary</u>
<u>REVENUES:</u>					
Activity funds	116,848	49,589	39,647	127,654	186,158
<u>EXPENDITURES:</u>					
Activity funds	<u>114,421</u>	<u>43,903</u>	<u>34,301</u>	<u>125,285</u>	<u>159,023</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	2,427	5,686	5,346	2,369	27,135
Fund Balance, July 1, 2008	<u>7,323</u>	<u>15,511</u>	<u>21,699</u>	<u>54,604</u>	<u>54,288</u>
Fund Balance, June 30, 2009	<u>9,750</u>	<u>21,197</u>	<u>27,045</u>	<u>56,973</u>	<u>81,423</u>

Note: These funds maintain accounting separate from MUNIS at June 30, 2009.

PERRY COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2009

<u>Leatherwood Elementary</u>	<u>Lost Creek Elementary</u>	<u>Robinson Elementary</u>	<u>R.W. Combs Elementary</u>	<u>Viper Elementary</u>	<u>Willard Elementary</u>	<u>Total (Memorandum Only)</u>
106,281	34,346	112,120	113,830	123,364	76,634	1,086,471
<u>103,833</u>	<u>35,375</u>	<u>117,675</u>	<u>105,730</u>	<u>122,603</u>	<u>76,959</u>	<u>1,039,108</u>
2,448	(1,029)	(5,555)	8,100	761	(325)	47,363
<u>21,078</u>	<u>1,566</u>	<u>27,641</u>	<u>48,084</u>	<u>34,072</u>	<u>14,644</u>	<u>300,510</u>
<u>23,526</u>	<u>537</u>	<u>22,086</u>	<u>56,184</u>	<u>34,833</u>	<u>14,319</u>	<u>347,873</u>

Note: These funds maintain accounting separate from MUNIS at June 30, 2009.

PERRY COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	* 10.553	7760005 08	N/A	96,048
	* 10.553	7760005 09	N/A	329,384
				425,432
 School Lunch Program	 * 10.555	 7750002 08	 N/A	 263,476
	* 10.555	7750002 09	N/A	890,186
				1,153,662
 Summer Food Service Program for Children	 * 10.559	 7690024 08	 N/A	 4,429
	* 10.559	7740023 08	N/A	44,942
				49,371
 Fruit and Vegetable Program	 * 10.582	 7720012 08	 N/A	 4,094
	* 10.582	7720012 09	N/A	31,946
				36,040
 Passed through State Department of Agriculture:				
Food Donation (non-cash assistance)	10.550	N/A	N/A	127,230
<u>Total U.S. Department of Agriculture</u>				1,791,735
 <u>U. S. Department of Commerce</u>				
Direct - Environmental Education				
(PRIDE) Personal Responsibility in a Desirable				
Environment				
Leatherwood	11.420	2709L	N/A	3,410
<u>Total U.S. Department of Commerce</u>				3,410
 Passed through State Department of Education:				
Title I	* 84.010	3108	1,700,987	198,569
	* 84.010	3109	2,238,354	1,891,151
Title I - Professional Development	* 84.010	3108D	192,189	10,661
	* 84.010	3109D	258,363	219,438
Title I - Parent Involvement	* 84.010	3109M	25,150	12,279
Title I - School Improvement	* 84.010	3207	28,923	798
	* 84.010	3208	29,961	18,787
Title I AARA	84.389A	3919	-	410
Title 5 Innovative Program	84.298	3348	8,197	4,383
				2,356,476
- Special Education Cluster -				
IDEA - B Basic	* 84.027	3378	951,685	218,176
	* 84.027	3379	953,394	661,643
				879,819
IDEA -B Preschool	* 84.173	3438	79,341	1,201
	* 84.173	3439	79,280	78,408
				79,609

PERRY COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
Vocational Education - Basic	84.048	3488	56,204	973
	84.048	3488A	1,170	1,170
	84.048	3489	69,005	59,551
				61,694
Title IV	84.186	4068	33,865	4,886
	84.186	4069	27,618	22,305
				27,191
Education Technology Title II D	84.318X	4258	19,238	3,574
	84.318X	4259	23,742	20,423
				23,997
Rural and Low Income School Program	84.358	3508	131,365	91,690
	84.358	3509	107,774	34,385
				126,075
Teacher Quality Grant	* 84.367	4018	434,258	51,251
	* 84.367	4019	463,283	358,387
				409,638
Passed through KCTC: GEAR-UP	84.334A	3798G	35,000	20,425
				20,425
<u>Total Department of Education</u>				3,984,924
<u>US Department of Defense</u>				
Direct				
JROTC	12.000	5049	98,966	84,236
<u>Total Federal Awards Expended</u>				5,864,305

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Perry County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Noncash assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

* - Indicates major programs

Chris Gooch

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Perry County School District as of and for the year ended June 30, 2009 which collectively comprise the Perry County School District's basic financial statements and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Perry County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Perry County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Perry County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Perry County School District's financial statements that is more than inconsequential will not be prevented or detected by the Perry County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Perry County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Perry County School District, in a separate letter dated October 28, 2009. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

This report is intended solely for the information and use of the Board, management, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, flowing script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 28, 2009

Chris Gooch

Certified Public Accountant
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(606) 436-5700

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits
Members of Perry County Board of Education
Hazard, Kentucky

Compliance

We have audited the compliance of Perry County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Perry County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Perry County School District's management. Our responsibility is to express an opinion on Perry County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Perry County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Perry County School District's compliance with those requirements.

In our opinion, Perry County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Perry County School District, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Perry County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Perry County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of and use of the Board, management, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 28, 2009

PERRY COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2009

None

PERRY COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2009

- SUMMARY OF AUDIT RESULTS –

1. We have issued an unqualified opinion on the financial statements.
2. No control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No control deficiencies were disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Perry County School District had the following major programs:

U. S. Department of Education
Passed through State Department of Education

- Title I - CFDA No. 84.010
- Teacher Quality Grant - CFDA No. 84.367

Special Education Cluster
Idea-B Basic, Idea-B Preschool
CFDA Nos. 84.027, 84.173

U.S. Department of Agriculture
Passed through State Department of Education

- School Lunch and Breakfast Programs, Summer Food Service Program for Children, Fruit and Vegetable Program
CFDA numbers 10.553, 10.555, 10.559 and 10.582 –
Child Nutrition Clusters

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

- FINDING RELATED TO THE FINANCIAL STATEMENTS –

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

Chris Gooch

Certified Public Accountant
P.O. Box 1536
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(606) 436-5700

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Perry County Board of Education
Hazard, Kentucky

In planning and performing our audit of the financial statements of Perry County School District for the year ended June 30, 2009, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated October 28, 2009, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 28, 2009, on the financial statements of the Perry County Board School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, cursive script.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

October 28, 2009

PERRY COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009**Follow-up on Prior Year Comments****1. Sales tax paid on disbursements**

Condition:	We noted sales tax paid for some disbursement transactions in prior audit periods.
Criteria:	School districts are exempt from sales tax and a purchase exemption certificate should be provided for all purchases.
Cause:	Payments were made for purchases that included sales tax.
Effect:	Funds available for student activities are decreased.
Recommendation:	Payments should be made only for the amount of purchase. Employees purchasing items for the school may only be reimbursed for the amount of purchase.
Management's Response:	Management will emphasize that payments are to be made for the amount of purchase only and a purchase exemption certificate is to be presented for the amount of purchase.
Current Year Auditor Comment:	Management emphasized payments should be made for the amount of purchase only. We noted some transactions at the General Fund and Activity Fund level for those selected for testing where sales tax was paid during our current year audit totaling \$576.32. District personnel should seek reimbursement where applicable.

2. Control over check issuance

Condition:	We noted during prior audits only one signature for a sample of disbursement transactions selected for testing.
Criteria:	Checks should have two authorized signatures before a disbursement check is mailed.
Cause:	Controls regarding check issuance were not followed in some instances.
Effect:	Signing blank checks or releasing checks with only one signature creates an atmosphere for a fraudulent disbursement to occur. In both instances, a check could be issued for an unauthorized and unallowable amount.

PERRY COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS (CONTINUED)

For the Year Ended June 30, 2009

Follow-up on Prior Year Comments (continued)

Management's Response:	Management will emphasize to applicable personnel the following: the importance of signing checks only when accompanied by adequate supporting documentation; to maintain sufficient controls over access to the blank check stock; and to monitor checks for the payment of disbursements having only one signor.
Current Year Auditor Comment:	We noted one activity fund check paid with only one authorizing signature for our current year test sample.

3. Maintenance of concession inventory records at school activity level

Condition:	We noted Buckhorn High School activity fund does not maintain inventory control records for its concession activities on state prescribed forms.
Criteria:	State prescribed forms should be employed for monitoring concession related activity fund activities.
Cause:	District personnel were not completing the prescribed forms.
Effect:	Controls are weakened and the risk of fraud or error is increased.
Recommendation:	Control forms should be completed for all future concession related activities.
Management's Response:	Management will ensure that inventory control forms are completed for future concession related activities. Periodic monitoring by District personnel will occur to ensure control forms are completed.
Current Year Auditor Comment:	We noted that inventory control forms were completed for those applicable transactions tested.

4. Policies and procedures regarding distribution of gift cards

Condition:	We noted that for some gift cards distributed at the activity fund level, no documentation as to the recipient was on file.
Criteria:	When distributing gift cards, a detail record of the recipient and the purpose should be on file.

PERRY COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTS (CONTINUED)For the Year Ended June 30, 2009**Follow-up on Prior Year Comments (continued)**

Cause:	District personnel were not retaining sufficient information to determine the recipient or purpose in some instances.
Effect:	Controls are weakened and the risk of fraud or error is increased.
Recommendation:	A listing of gift card recipients indicating purpose should be completed for all future gift cards purchased and distributed.
Management's Response:	A listing of gift card recipients indicating purpose will be completed for all future gift card transactions. Periodic monitoring by District personnel will be employed to ensure that Management will ensure procedures are occurring.
Current Year Auditor Comment	We noted listings and purpose maintained for those applicable transactions tested.

Current Year Auditor Comments**1. Ensuring frequent cash deposits**

Condition:	We noted that Lost Creek Elementary (school closed at end of the year) food service did not make any deposits for January 2009 although school was in session several days during the month.
Criteria:	Deposits should be made daily and reflect evidence of reconciliation to underlying receipt information.
Cause:	District personnel did not make daily deposits were not retaining sufficient information to determine the recipient or purpose in some instances.
Effect:	Controls are weakened and the risk of fraud or error is increased.
Recommendation:	Deposits should be made daily.
Management's Response:	Deposits will be made daily or personnel will provide documentation for making more infrequent deposits. District personnel will periodically monitor the frequency of deposits.

PERRY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONTINUED)

For the Year Ended June 30, 2009

Current Year Auditor Comments (continued)

2. Use of pre-signed standard invoices

Condition:	We noted Willard Elementary's activity fund use of blank pre-signed standard invoices.
Criteria:	The standard invoice should be employed as an authorization document.
Cause:	The school did not retain written evidence that an official had authorized the disbursement transaction.
Effect:	Unauthorized purchases may occur.
Recommendation:	The authorizing official should sign the standard invoice after reviewing the invoice details and support documentation.
Management's Response:	District personnel will periodically monitor individual activity fund disbursement transactions to ensure that written authorization is evident.